

Defining Earnings Management Practices in Light of the Adoption of International Financial Reporting Standards

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Abstract

Purpose: The purpose of research is to study the impact of IFRS standards on the implementation of international financial instruments in the financial institutions of the country before and after implementing IFRS rules on the application of the IFRSs.

Method: guarantees the practices of the educational institutions from 2010 to 2021, and measures them by means of references. (Kothari et al., 2005).

Results: Statement of the International Standards for Financial Reporting, which shows that the international standards for financial reporting contain a number of alternatives that allow for Earnings Management (EM) practices.

Research Implications: We also find that the level of application of IFRS in non-commercial markets may differ in importance from the application in the Non-Commercial Markets.

Originality/value: contribute to the challenges facing IFRS, which can help to implement IFRS successfully in the future in order to avoid problems with the implementation of the standards by improving the quality of the management of the options available in these standards.

Key words: IFRS, Earnings Management, Nondiscretionary Accruals.

1. Introduction

resulting in the rapid dissemination of the world and the great development of the international economy, and the appearance of multinational companies in the world (Hussein et al., 2023). as well as to increase the volume of financial transactions and transport of financial assets across different parts of the world, it is necessary to pay attention to the accounts and necessary periods for international

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institutions. On the basis of this, the Board of Standards of International Accounting (IASB) and the Council of Financial Accounting Standards (FASB), jointly develop a set of standards and use throughout the world. (Al-taee & Flayyih, 2022; Flayyih & Khiari, 2023). The report is based on the International Financial Reporting Standard (IFRS). is the most important information for all users of the financial services that it requires. (Nikkeh et al., 2022). For the purposes of influencing the amount of profit or, vice versa, for achieving many objectives, it may be to evade taxes, attract investors, increase the market value of companies, etc. (Flayyih and Khiari, 2022). It is an important concept in the field of scientific research and academic computing. In order to ensure that the administrative procedures are implemented in accordance with the principles and procedures laid down in this Regulation, (Albderi et al., 2023; Al-taee & Flayyih, 2023). There are two ways to manage the profits: the administration of profits, and the management of real profits. (Al-Janabi et al., 2023). Directions of companies to practice the management of profits in order to influence the amount of profit either by reducing or vice versa to many of the objectives may be to evade taxes or attract investors or to increase the market value of equity, etc. (Talab & Flayyih, 2023).

It is necessary to determine the impact of the administrative practices on the performance of financial institutions, which were conducive to the implementation of certain accounting standards and accepted accounting principles. It is necessary to determine the impact of the quality and the size of the accounting standards on the management of profit. (Maseer et al., 2022).

Therefore, it is important to determine the level of management practices in the light of the international standards for financial reporting. In this context, it is possible to investigate the purpose of seeking answers to questions and representations concerning financial reporting before and after the implementation of the International Standards for Financial Reporting. Do the standards of financial reporting international have an impact on the management of profits? The primary and primary objective of investigation is to determine the practices of financial management in the light of the international standards for financial reporting in the environment of the country. Knowing the practices of financial management before and after the implementation of the international standards of financial reporting in the country. I think of the importance of researching the need to implement international standards for reporting financial information in the environment of the world, and of helping them develop accounting practices. to improve the quality of the financial reporting and reduction of administrative practices. There is a need for consultation to study and analyze financial

problems related to the application of the international standards for financial reporting containing more than one form of consultation and use by the management company.

2. Literature review

After the adoption of IFRS, a large number of studies dealt with the relationship between it and EM practices. A study (Jeanjean & Stolowy 2008) aimed to conduct an analysis to see if the International Financial Reporting Standards (IFRS) had an impact on EM for the period from 2004 to 2008. The study sample consisted of a group of companies in three countries (Australia, France, and the United Kingdom). The study found that EM decreased after adopting IFRS in Australia and the United Kingdom, while France notes that EM increased after adopting IFRS. A study (Zeghal, 2002) aimed at examining the relationship between the adoption of IFRS and the quality of profits, on a sample of 1547 economic units in 15 countries in 15 countries of the European Union during the period from 2002 to 2002. Where she represented the period from 2002 to 2004 before adoption. And the period from 2006 to 2007 after adoption. The study concluded that the adoption of IFRS has a positive impact on the quality of profits. The study of (Ismail et al., 2013)) dealt with the difference in earnings quality before and after adopting IFRS by testing whether EM practices decreased significantly after adoption and the effect of adoption on earnings suitability using the Jones model. The sample consisted of 4010 viewers for the period from 2002 to 2009, and this period was divided into 3 years before adoption and three years after adoption. . In addition to the low level of EM practices after adoption.

Nouri & Abaoub (2014) study aimed to test the effect of adopting IFRS on EM on a sample of French companies for the period from 2000 to 2009, where the number of observations reached 1450. The study found a decline in EM practices after adopting IFRS. Doukakis, 2014) study aimed to test the impact of the mandatory application of IFRS on both EM on the basis of real activities and EM on the accrual basis using the modified Jones model 1995. The study sample consisted of a group of companies from 22 European countries for the period from 2000 Until 2010. The study concluded that the mandatory adoption of IFRS did not have any significant impact on EM based on accruals or EM on the basis of real activities.

The study (Kaaya, 2015) aimed to find out the impact of IFRS on EM after adopting IFRS compared to local standards by reviewing empirical research evidence around the world. Studies have been examined in developed markets, especially European countries, the United States of America and emerging capital markets, and the study has found mixed and dissimilar results in both developed and

developing countries. Therefore, it is difficult to generalize the results of this study to all countries of the world, and this indicates the urgent need to conduct studies of this kind that are empirically tested in particular for each country.

Martini & Lusiana, 2016) aimed to test the quality of accounting information before and after the adoption of IFRS on a sample of Indonesian companies listed on the stock exchange for the period from 2010 until. The study concluded that there are no significant differences in the quality of profits before and after adopting IFRS. The study (Rathke et al., 2016) aimed to know the level of EM in companies that adopted IFRS in Latin America compared to companies that also adopted IFRS in Anglo-Saxon countries (United Kingdom and Australia) and European (France and Germany) for the period from 2010 to 2012. The study relied on analyzing the data on the Jones 1991 model, and the study concluded that companies in Latin America have a higher EM level compared to companies in the Anglo-Saxon and European countries. The study suggested that the reason for this is due to the different environmental factors for each country and related to economic and cultural factors that may have a significant impact on the method of applying IFRS.

The study (Mohamed, 2016) aimed to identify the impact of the amendments to the IFRS on the quality of earnings. The sample included a number of commercial banks in Jordan, 10 out of 13 banks for the period from 2004 to 2010, and the study concluded that there is no effect of the amendments in the standards on EM and thus the quality of profits in the Jordanian commercial banks. The study (Mansour, 2017) aimed to study and analyze the relationship between EM and financial performance. And testing the impact of adopting IFRS on this relationship to assess the effectiveness of adopting these standards by conducting an applied study on industrial companies listed on the Egyptian Stock Exchange for the period from 2002 to 2015 using the modified Jones model 1995. The study concluded that EM has a significant impact on performance financial performance measured by the rate of return on assets, and it did not have a significant effect on the rate of return on equity, that is, there is a significant relationship between EM and financial performance in the case of measuring financial performance by the rate of return on assets, and the adoption of IFRS did not have a significant impact on the relationship between EM and financial performance as measured by the rate of return on assets and the rate of return on equity. This indicates the ineffectiveness of applying international standards For financial reporting in reducing the impact of EM on financial performance and thus its inability to affect the motivation of managers and their ability to manage profits in order to influence financial performance.

The study (Hussain, 2018) aimed to study the economic benefits of applying IFRS. More specifically, a study of whether the outputs of the financial statements provided to users have improved following the application of IFRS. This is after controlling the legal enforcement force and the characteristics of the companies. The study sample consisted of 56 non-financial companies listed in the Egyptian stock market during the period between 1997-2011. The study relied on the modified Jones model for analyzing the data. The study concluded that there is a significant impact of the application of IFRS on the opportunities for management intervention through Nondiscretionary Accruals in order to manage profits, which is reflected in the decrease in the appropriate value of accounting information. The results also indicated that the companies with high leverage are the companies with the lowest appropriate value for accounting information, and that the companies subject to the Private Sector Law No. 159 of 1981 are the companies that intervene most through Nondiscretionary Accruals in order to substantially manage profits and increase the chances of management intervention through practices EM in larger companies without a significant impact on future growth opportunities and global stock exchanges on EM practices and the appropriate value of accounting information.

The study (Muhamad et al., 2019) aimed to know the impact of changes in accounting standards on EM by comparing companies that apply IFRS and companies that apply generally accepted accounting principles (GAAP). The sample included two of the largest companies listed on the German Stock Exchange for the period from 2003 to 2014. The study concluded that EM practices have decreased in companies that apply IFRS compared to companies that apply generally accepted accounting principles (GAAP).

The study (Bukhouh & Muhammad, 2020) aimed to determine the impact of applying international accounting standards on EM practices in Saudi non-financial companies. The sample included 12 non-financial companies, and the study relied on analyzing the data on the modified Jones Model 1995 for the period from 2014 to 2019, three years before application and three years after application. The study concluded that the application of IFRS by Saudi companies led to a reduction in EM practices.

The study (Al-Azmi, 2022) aimed to reveal the extent to which Kuwaiti companies listed on the Stock Exchange practice EM practices, and to identify the awareness and awareness of the compilers of financial statements and reports in the Kuwaiti companies under study to apply the IFRS in order to improve the quality of financial reports, and to measure the effect of mandatory application The IFRS limit EM practices, and the study relied on the data analysis on the questionnaire as a tool for collecting information. The study found that

there is a significant effect between the application of IFRS and the reduction of EM practices. That is, whenever there is a positive trend and activation of the application of IFRS, the more this will be reflected positively on limiting EM practices. Finally, the IFRS have a good impact rate on limiting EM practices in companies listed on the Kuwaiti Stock Exchange. Based on previous studies, we assume the following:

First: EM practices exist before the adoption of IFRS.

Second: There are EM practices after adopting IFRS.

Third: There are statistically significant differences between EM practices before and after adopting IFRS.

Fourth: There is a statistically significant relationship between the adoption of IFRS and EM practices.

Fifth: There is a statistically significant effect of adopting IFRS and the controlling variables on EM practices.

3. Research Methodology

3.1 Research Sample

The research sample included 10 Iraqi banks listed on the Iraq Stock Exchange for the period from 2010 to 2021, and the reason for choosing the banks is precisely because they are the companies that have adopted financial reporting standards. The banking sector is also represented as the most active sector and shares are traded compared to other economic sectors.

3.2 Measuring research variables

Measurement of the Independent Variable: IFRS

The researcher considered the independent variable as the IFRS and measured it as a Dummy Variable, and measured it by giving (0) for the years before adopting the IFRS and giving (1) for the years after adopting the IFRS.

Measurement of the dependent variable: EM: There are many models used to measure EM, all of which agree in considering Nondiscretionary Accruals as an indicator of the practice of EM Which is called the "Performance-adjusted discretionary" model, because it links the accruals to the company's current and previous performance. The model (Kothari et al., 2005) is the developed version of the model (Dechow et al., 1995), and this is what makes the researcher use it as a measure to measure the practice of EM in the research sample banks. Optional dues are calculated according to the following steps:

The first step: Determining the total accruals: The total accruals are calculated through the difference between the income before extraordinary items or the income after interest and taxes and the net

cash flow from operating activities during the period and according to the following equation No. (1).

$$TACC_{i,t} = IBEL_{i,t} - CFO_{i,t}$$

Since:

$TACC_{i,t}$: the total accruals of company i during period t .

$IBEL_{i,t}$: Income before extraordinary items or income after interest and taxes of company i during period t .

$CFO_{i,t}$: The cash flows from the operating activities of company i during period t .

The second step: Estimating the parameters of the model used to calculate Nondiscretionary Accruals: The parameters of the model used to calculate Nondiscretionary Accruals are estimated using the following equation (2):

$$TACC_{i,t} / A_{i,t-1} = a_0 + a_1 (1 / A_{i,t-1}) + a_2 (\Delta REV_{i,t} - \Delta AR_{i,t} / A_{i,t-1}) + a_3 (PPE_{i,t} / A_{i,t-1}) + a_4 ROA_{i,t} + \varepsilon_{i,t}$$

Since:

$TACC_{i,t}$: the total accruals of company i during period t .

a_0 : regression constant of the multiple linear regression equation.

a_1, a_2, a_3, a_4 : regression parameters of the model

$A_{i,t-1}$: The total assets of company i for the previous year $t-1$.

$REV_{i,t-1\Delta}$: the change in the revenue account of firm i over period t .

$ARI_{i,t-1\Delta}$: the change in the debtors account of firm i over period t .

$PPE_{i,t-1}$: the total fixed assets of company i during period t .

$ROA_{i,t-1}$: the return on assets of company i over period t .

$\varepsilon_{i,t}$: residual parts of the model and represent the random error.

Third Step: Calculate Nondiscretionary Accruals

Nondiscretionary Accruals are calculated after extracting the parameters of the multiple linear regression model in the second step and substituting them into the following equation (3):

$$NDA_{i,t} = a_0 + a_1 (1 / A_{i,t-1}) + a_2 (\Delta REV_{i,t} - \Delta AR_{i,t} / A_{i,t-1}) + a_3 (PPE_{i,t} / A_{i,t-1}) + a_4 ROA_{i,t} + \varepsilon_{i,t}$$

Since:

$NDA_{i,t}$: Nondiscretionary Accruals for company i during period t .

Step Four: Discretionary Accruals

After calculating the total and Nondiscretionary accruals, the Nondiscretionary Accruals are determined according to the following equation No. (4):

$$TACC_{i,t} = NDA_{i,t} + DAC_{i,t}$$

By amending equation No. (4), the voluntary dues are calculated as in the following equation:

$$DAC_{i,t} = TACC_{i,t} - NDA_{i,t}$$

Since:

DAC i,t : the Nondiscretionary Accruals of company i during period t .

After determining the optional receivables of the research sample banks, the researcher identifies the banks that practiced EM during the research period. It is judged that the bank has practiced EM by comparing the absolute value of the voluntary dues calculated for the bank during a given year and comparing it with the arithmetic mean of the absolute value of the optional dues for the banks during the same year. If the absolute value of the optional receivables of a particular bank is less than the arithmetic mean, this indicates that the bank does not practice EM. In the event that the absolute value of the optional receivables of the bank is greater than the arithmetic mean, this indicates that the bank is practicing EM. The researcher reviews, through the tables listed below, the results of measuring the EM of the research sample banks.

Measurement of Control Variables: Control variables are variables that affect the relationship between the independent variables and the dependent variable. Control variables are used in experimental research to adjust their effect on the relationship and reduce the sources of errors in the experiment. While attention remains focused on noting the effect of the independent variable on the dependent variable only. In order to achieve maximum accuracy in the results, the researcher uses the controlling variables (financial leverage, age of the bank, return on equity) to regulate the relationship between the independent variable and the dependent variable.

4. Results and discussion

4.1 Testing the first hypothesis

To test the first hypothesis, the researcher uses the statistical program (SPSS.25) and uses the statistical test (One-Sample T-Test) to indicate the presence of EM practice in banks. The research sample before adopting IFRS, the researcher determines (0%) as a percentage of the absence of practices To manage profits in the research sample banks and as a test value for the implementation of this test; The test shows the following results.

Table (1) One-Sample Test for the first hypothesis

EM before adopting IFRS	Functionality	Deference	T value	EM	Observation
	0.000	0.1351	1.984	0.1351	78

Table (1) shows that the arithmetic mean of EM before the adoption of IFRS was (0.1351), and that the difference between the assumed arithmetic mean (0) and the sample mean was (0.1351), which is a significant difference (0.000) less than (0.05).). Therefore, the first

research hypothesis is accepted, which states - Iraqi private banks practiced EM before adopting IFRS.

4.2 Testing the Second Hypothesis

To test the second hypothesis, the researcher uses the statistical program (SPSS.25) and uses the statistical test (One-Sample T-Test) to indicate the presence of EM practice in the research sample banks after adopting IFRS. The researcher determines (0%) as a percentage of the absence of EM practices in the research sample banks and as a test value for the implementation of this test; The test shows the following results.

Table (2) One-Sample Test for the second hypothesis

EM before adopting IFRS	Functionality	Deference	T value	EM	Observation
	0.000	0.0760	7.455	0.0760	78

Table (2) shows that the arithmetic mean for managing profits after adopting IFRS was (0.0760). And the difference between the assumed arithmetic mean (0) and the sample mean was (0.0760). It is a significant difference (0.000) less than (0.05). Therefore, the first research hypothesis is accepted, which states - Iraqi private banks practice EM after adopting IFRS.

4.3 Testing the Third Hypothesis

To test the third hypothesis, the researcher uses the statistical program (SPSS.25) and uses the (Paired-Samples T-test) to indicate for which period (before the adoption of the criteria - after the adoption of the criteria) EM was practiced more for the research sample banks. The test shows the following results.

Table (3) Paired-Samples T test for the third hypothesis

Variables	function	T value	Observation	DEFREENT	average Arithmetic
EM before adopting IFRS	0.001	3.434	78	0.0591	0.1351
EM before adopting IFRS					0.0760

Table (3) shows that the arithmetic mean for managing profits before adopting IFRS was (0.1351). It is greater than the arithmetic mean of EM after adopting IFRS (0.0760), with a significant level of (0.001) less than (0.05). Therefore, the third research hypothesis is accepted, which states (there are statistically significant differences between the practice of profits before adopting IFRS and after adopting IFRS). This indicates that the banks in the research sample practiced EM before adopting IFRS more than the period after adopting the standards.

4.4 Testing the fourth research hypothesis

To test the fourth research hypothesis, the researcher uses the statistical program (SPSS.25) and uses the (Correlation Point biserial) test to test the strength and direction of the relationship between the independent variable (IFRS) and the dependent variable (EM); The test shows the following results.

Table (4) Correlation Point biserial test for the fourth hypothesis

EM		
0.280-	correlation coefficient	IFRS
0000.	Moral significance	
156	Views	

The test results of the Point biserial Correlation coefficient show an inverse relationship between the adoption of IFRS and EM in the research sample banks, with a correlation coefficient of (-0.280) and a significant level of (0.000) less than (0.05). This means that adopting IFRS contributes to reducing the level of EM practice. Therefore, the fourth research hypothesis is accepted, which states (there is a statistically significant relationship between the adoption of IFRS and EM).

4.5 Testing the Fifth Hypothesis

To test the above hypothesis, the researcher uses the statistical program (SPSS.25) and uses multiple regression analysis to predict the effect of the independent variable (the adoption of IFRS) and the controlling variables on the dependent variable (EM). The following tables show the results of the multiple linear regression analysis .

Table (5) Determination of the correlation coefficient for multiple linear regression for the fifth hypothesis

R	R Square
0.303	0.29

Table (5) shows the value of the correlation coefficient (R) between the independent variable (IFRS) and the controlling variables, and the dependent variable (EM), amounting to (30.3%). It is an acceptable value that shows the strength of the relationship between the independent variable, the control variables and the dependent variable. As the table shows, (R square) is equal to (0.29). That is, the independent variables explain (29%) of the variance or variables that affect the dependent variable (EM). The remaining percentage is due to other reasons, including random error.

Table (6) ANOVA - multiple linear regression test for the fifth hypothesis

Level of significant	calculated F	Degree of freedom
0.005	3.822	4
		151

		155
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The above table for analysis of variance (ANOVA) shows the results of analysis of variance for multiple linear regression and confirms that the regression has a statistical significance with a significant level of (0.005) less than (0.05). Therefore, the fifth hypothesis of the study is accepted, which states (there is a statistically significant effect of adopting IFRS and controlling variables in EM).

Table (7) Multiple linear regression test for the fifth hypothesis

Scale	Level of significant	T Value	(β) Regression coefficient
Regression constant	0.002	3.096	0.113
IFRS	0.044	-2.031	-0.044
leverage	0.254	1.145	0.066
The age of the bank	0.465	-0.732	-0.001
return on shareholders' equity	0.448	0.765	0.042

Table (7) shows that the independent variable (IFRS) and the controlling variables have an effect on the dependent variable (EM). IFRS have a negative impact with a regression coefficient of (-0.044) and a significant significance of (0.044) less than (0.05), which means that the adoption of IFRS contributed to reducing EM practices by a greater percentage than the unified accounting system used in Iraqi private banks Before adopting IFRS. Financial leverage has a positive effect on managing profits, with a regression coefficient of (0.066), but without significant significance, as it amounted to (0.254) greater than (0.05). The age of the bank has a negative effect on information asymmetry, with a regression coefficient of (-0.001), but without significant significance, as it amounted to (0.465) greater than (0.05). The return on shareholders' equity has a positive impact on EM, with a regression coefficient of (0.042), but without significant significance, as it amounted to (0.448) greater than (0.05).

5. Conclusions

According to the research hypotheses that were tested and the results of the analysis. The results of the study indicate that the research sample banks practice EM before and after adopting IFRS. This indicates that IFRS still contains many alternatives that allow EM practices. There are statistically significant differences between EM practices before and after adopting IFRS. This indicates that EM practices prior to the adoption of IFRS were greater than the period

prior to adoption. That is, IFRS has limited EM practices. Through the results that have been reached, the study recommends the necessity of adopting and applying international standards for financial reporting in the rest of the Iraqi sectors, because of its importance in supporting the Iraqi economy and attracting foreign investments. As well as improving the quality of accounting information in the financial statements.

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